VZCZCXRO0059
PP RUEHDE RUEHDIR
DE RUEHAD #1859/01 3110946
ZNY CCCCC ZZH
P 070946Z NOV 07
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC PRIORITY 9999
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 001859

SIPDIS

SIPDIS

DEPARTMENT FOR NEA/ARP, EB/ESC/IEC/EPC

E.O. 12958: DECL: 11/07/2017
TAGS: EPET ENRG EINV PGOV AE
SUBJECT: RESOURCE NATIONALISM IN THE UAE

REF: STATE 150999

Classified By: Ambassador Michele J. Sison for reasons 1.4 (B) and (D).

¶1. (C) The question of resource nationalism in the UAE is complicated by the federal nature of the country. Constitutionally, natural resources belong to the individual emirates rather than the UAE Federal Government. Each emirate, therefore, sets its own policies with regard to oil and gas development. Although, the UAE has followed a largely successful policy of diversifying the economy away from a reliance on oil and gas, it is still a key part of the economy. In 2006, oil production contributed about a quarter of real GDP. High oil prices have increased the sector's share of nominal GDP to 37%. UAE officials have stated that the oil and gas sector is a vital part of the UAE's national security and the treatment of the sector was still unresolved when FTA negotiations were suspended in early 2007.

Abu Dhabi

¶2. (C) The Emirate of Abu Dhabi holds over 90% of the proven oil and gas reserves in the country, making it by far the richest of the seven emirates (contributing 60% of the UAE's GDP). The Emirate of Abu Dhabi has always allowed foreign participation in upstream oil production through long term concessionary arrangements, although it maintains majority local control over the major production companies.

¶3. (C) The Abu Dhabi National Oil Company (ADNOC) oversees the Emirate's share in the three main operating companies: the Abu Dhabi Company for Onshore Oil Operations (ADCO), the Abu Dhabi Marine Operating Company (ADMA/OPCO), and the Zakum Development Company (ZADCO). Currently foreign oil companies share 40% equity stakes in each of the three operating companies. The current share breakdown in ADCO is: ExxonMobil - 9.5%; BP - 9.5%; Shell - 9.5%; TotalFinaElf - 9.5%; Partex - 2%; ADNOC - 60%. Shares in ADMA/OPCO are broken down thus: ADNOC - 60%; BP - 14.7%; TotalFinaElf - 13.3%; the Japan Oil Development Company (JODCO) - 12%. ADNOC (60%), JODCO (12%), and ExxonMobil (28%) have shares in ZADCO. Exxon won the 28% stake in ZADCO in March 2006 along with a 20 year concession. There are certain smaller fields that are operated under majority foreign concession, but the three main operating companies produce the vast majority of Abu Dhabi's oil.

¶4. (C) Abu Dhabi officials have told Emboffs that foreign partners bring valuable technical and managerial experience to the development and exploitation of the Emirate's key natural resource. Although foreign oil companies have complained about the tight fiscal terms that ADNOC negotiates, they appear to be generally satisfied with the relationship. Embassy has not seen any increase in Abu Dhabi's resource nationalism in recent years. When Exxon won

its 28% stake in the Upper Zakum field, Abu Dhabi negotiated a 20 year concession with the company. It then extended the length of the existing concession for the other partner for the same amount of time. In April 2007, ADNOC tendered a major sour gas development project to foreign bidders. This would be the first foreign participation in Abu Dhabi's gas development and production (although there is foreign participation in producing gas liquids). Three U.S. Companies (Exxon, Occidental, and Conoco) along with Shell have been short listed for the project. Although the tender did not specifically state that the successful foreign bidder would have an equity share in the project, all companies are operating under that assumption.

¶5. (C) Looking forward, The ADCO concession is scheduled to expire in 2014. ADNOC is currently considering the procedure by which it will re-bid that concession. Current foreign partners are reluctant to invest heavily in production increases, since they do not have a guarantee that their concession will be automatically renewed. Senior ADNOC officials have told us that they hope to break up the concession to allow more foreign companies the opportunity to bid. The ADMA-OPCO (offshore) concession expires in 2018, and post understands that ADNOC is considering how to deal with that concession as well. Although the lack of a firm decision on the bidding process for both concessions has an impact on companies' investment decisions, there is no indication that Abu Dhabi will nationalize the concessions when they expire.

The Other Emirates

¶6. (C) Dubai, Sharjah, and Ras Al-Khaimah are much less

endowed with oil and gas reserves. Dubai has approximately 4% of the oil reserves and 2% of gas reserves. Sharjah has around 1.5% of the oil reserves and 5% of gas reserves. Ras Al-Khaimah has about half a percent of both. In August 2006, Dubai announced that it would be taking control of its offshore oil resources following the early termination of its agreement with the Dubai Petroleum Company (owned by Conoco Phillips) marking the end of the concession, which ran through 2011. Conoco effectively ceased operations in Dubai in spring 2007. The early termination of the concession was by mutual consent. Conoco executives told the Consul General that the company did not believe the extra investment necessary to exploit fully the remainder of Dubai,s petroleum would be worth it for the company. A UK company has been awarded the contract to operate the offshore field. Sharjah's offshore Mubarak oil field is operated by the private, UAE-based company Crescent Petroleum on a concession agreement. BP operates three onshore gas fields, a processing plant, gas compression facilities, and an exports terminal for liquids. Officers at the Sharjah Petroleum Council have told Econoffs that they would welcome foreign investment in oil and gas development. The emirates of Ras Al-Khaimah and Umm Al-Quwain both have exploration/development agreements with foreign firms.
SISON